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OPEN MEETING AGENDA ITEM

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, CHAIRMAN
 GARY PIERCE
 BRENDA BURNS
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Arizona Corporation Commission

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ARIZONA CORPORATION COMMISSION
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IN THE MATTER OF THE PROPOSED)
 RULEMAKING TO MODIFY A.A.C. R14-2-103)
 TO UPDATE THE UTILITY CLASSIFICATIONS)

DOCKET NO. RU-00000A-13-0294

**COMMENTS OF THE GLOBAL
WATER UTILITIES**

The Global Water Utilities¹ support the proposed revisions to the utility classifications in A.A.C. R14-2-103 ("Rule 103"), as described in the Commission's Notice of Proposed Rulemaking.

The proposed rule change is a sensible and narrowly-focused update to the revenue classifications in Rule 103. Those classifications have not been updated since 1992,² and they are clearly out of date. Indeed, the \$250,000 threshold for a "Class C" water utility is even older than that, dating back to at least 1974.³ There has been significant inflation in the last 40 years, rendering this threshold seriously out of date. The \$250,000 threshold in 1974 dollars equates to over \$1.2 million today.⁴

Under the current rules, a water utility with only \$250,000 in annual revenue is considered a "Class C" utility, and is subject to very complex filing requirements for rate applications. Yet in

¹ Global Water – Santa Cruz Water Company, Global Water – Palo Verde Utilities Company, Global Water – Picacho Cove Water Company, Global Water – Picacho Cove Utilities Company, Valencia Water Company, Inc. – Town Division, Valencia Water Company, Inc. – Greater Buckeye Division, Water Utility of Greater Buckeye, Inc., Willow Valley Water Co., Inc., and Water Utility of Northern Scottsdale, Inc. (collectively, the Global Water Utilities).

² See Decision No. 57875 (May 18, 1992)(adopting revisions to Rule 103).

³ See Former R14-2-128, listed as adopted April 1974 (historical note references former General Order U-53).

⁴ According to the CPI calculator at <http://data.bls.gov/cgi-bin/cpicalc.pl>, \$250,000 in 1974 dollars equates to \$1,207,053.75.

1 practical terms, a utility with that revenue is still a very small utility, often with only a few hundred
2 customers.⁵ If adopted, the amended rule will increase the minimum revenue threshold for Class
3 C status to \$1,000,000. As a consequence, many small water companies will be shifted from Class
4 C to Class D. These small companies will benefit by being able to use the “short form” rate
5 application rather than the complex rate schedules required for Class C and above. Moreover,
6 these smaller companies will also benefit from a faster “time clock” requirement for their cases,
7 with a ruling required 180 days after “sufficiency.”⁶

8 Many small water companies struggle even with the “short form” process; requiring these
9 companies to file full rate schedules is very burdensome. Many companies will require the
10 services of a paid consultant to prepare the full rate schedules, a cost that may be passed on to
11 customers through rate case expense. Other small companies are so intimidated by the rate
12 application requirements that they do not file for decades, and eventually require large rate
13 increases and possibility emergency assistance. Shifting these companies into a lower
14 classification with fewer filing requirements will enable more to seek rate relief regularly, and thus
15 keep up with maintenance and service obligations. Thus, the simplified filing requirements will
16 benefit both customers and utilities.

17 When the Commission last updated the classifications in 1992, it considered the “balance
18 of the distribution of the companies among the classes” in evaluating the update.⁷ In its April
19 order approving the Notice of Proposed Rulemaking, the Commission provided a breakdown of
20 how each type of utility will be impacted by the revision.⁸ As shown in the breakdown, only the
21 largest 34 companies will be considered Class A, with 20 as Class B, and 42 as Class C, and the
22 rest Class D and Class E. This is reasonable breakdown that preserves “Class A” status for only
23

24 ⁵ For example, a utility with \$250,000 in gross revenue and an average customer bill of \$100 a
25 month has 208 customers. ($\$250,000/12 = \$20,833$ a month; divided by $\$100 = 208.3$).

26 ⁶ See A.A.C. R14-2-103(B)(11)(d)(iv).

27 ⁷ See Decision No. 57875, Attachment B (Explanatory Statement), at page 9, lines 19-20.

⁸ Decision No. 74436 (April 18, 2014) at Finding of Fact No. 10.

1 the largest utilities, Class B and C for medium-sized utilities, and keeps the large number of small
2 utilities as Class D or Class E.

3 The two largest Global Water Utilities—located in Maricopa, Arizona—will remain Class
4 A, and a smaller utility⁹ in Buckeye will shift from Class A to Class B. The benefits of the rule
5 change will flow to small companies, while larger companies will continue to be subject to all
6 previous requirements.

7 The ALJ's Recommended Opinion and Order ("ROO") expressed a concern about the
8 requirement in A.R.S. § 40-250 to have a hearing for rate increases of utilities with more than
9 \$250,000 in gross intrastate revenue. However, this hearing requirement can be easily
10 accommodated for Class D utilities with more than \$250,000 in revenue. The statute does not
11 specify the format of the hearing—there is no reason for a rate hearing for a small water company
12 to look like an APS or Southwest Gas rate hearing. The statute does not require multiple rounds of
13 written testimony or numerous witnesses. The statute only requires a "showing before the
14 commission and a finding by the commission that an increase is justified." A.R.S. § 40-250.


15 This requirement could be satisfied in several ways. The Administrative Law Judge could
16 hold a short telephonic hearing after the Staff report is issued. Or the Commission could hear from
17 any party at the open meeting, as it does in some A.R.S. § 40-252 cases. Alternatively, the
18 Commission could ask the Legislature to increase the statutory limit.

19 In conclusion, the Global Water Utilities support updating the utility classifications, and
20 they support Chairman Stump's Proposed Amendment No. 1 to approve the new classifications.
21 In addition, it may be appropriate to set up a periodic review of the classifications, so that they do
22 not become so out-of-date. The Commission could include an ordering paragraph asking the Staff
23 to file a Staff Report at some specified interval (such as every five years), with a recommendation
24 as to whether the classifications should be updated.

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27 ⁹ Valencia Water Company, Inc. – Town Division.

1 RESPECTFULLY SUBMITTED this 24th day of October 2014.

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